



Summary

This report covers market trends for the Indian machine tool sector with special focus on Reconditioned Machine Tools (RMT). It does not cover tooling and processing machines for specific sectors.

Since early 2002, the Indian engineering sector, especially the automotive sector, witnessed increased investment as global majors started to outsource manufacturing to India. This sudden investment by the end-user segment enabled the foreign machine tool manufacturers to capture a major market share due to the shortage of quality machine tools in India. This also led to an increase in the import of RMT. According to the Indian Machine Tool Manufacturer's Association (IMTMA), the total market for machine tools in India was US\$582 million in 2005. This increased to US\$630 million in 2006. This growth is expected to continue and industry sources estimate the Indian machine tool market at US\$850 million by the end of this fiscal year (March 2008).

Active participation of foreign companies in the Indian machine tool sector shows the significance and growth of this sector. The Association of Manufacturing Technology (AMT) has targeted India as the next major destination for American machine tool companies. The U.S. enjoys a 15-18 percent market share in India's total import of machine tools and accessories. This is followed by Germany, Japan, China, Taiwan and South Korea.

Market Demand

In February 2007, the Government of India's Central Statistical Organization (CSO) predicted nine percent economic growth for this fiscal year (ending March 2008). This is third year in a row that the Indian economy has grown at over 8.5 percent. Manufacturing, which accounts for about 15 percent of the GDP, is expected grow by 9.4 percent this fiscal year compared to 8.1 percent in March 2005. The growth is balanced and steady across all the sectors of the Indian economy.

Until recently, the Indian ministry of defense was procuring its entire requirements from ordnance factories owned by the Indian government. In a significant change in the procurement policy, there is a move to allow private Indian companies to supply defense equipment. India's expenditure on defense procurements was US\$5.68 billion last year. Indian private sector companies are now focusing on entering this segment with assistance from several foreign companies. This is expected to provide further growth for this sector.

The Indian government constantly reviews its Foreign Direct Investment (FDI) policy in an effort to attract more investment. In 2005, the government of India allowed 100 percent FDI in housing and real estate projects, hotel and tourism and other sectors. These measures have led to increased investment by foreigners in the Indian economy. Companies in the manufacturing sector are planning to invest about US\$45 billion over the next 3-5 years in

setting up / expanding / upgrading their manufacturing base. (Source: CII-McKinsey Report). Therefore, demand for machine tools and allied product is bound to grow exponentially in future.

The year 2006 saw rising orders as many end-users started investing in the enhancement of production capacity. India slowly emerged as the preferred destination for manufacturing outsourcing in the engineering sector. The Indian engineering sector also increased its efficiency and over 2,500 companies from the Indian engineering sector acquired ISO 9000 certification in several diverse areas such as casting and forgings, automobile accessories, machine tools, electrical machinery, industrial machinery, engines and pumps.

Market Data

India is the 18th largest producer of machine tools in the world. This industry consists of about 450 manufacturing units, of which about 150 are in the organized sector. The top ten manufacturers account for 60 percent of output and are ISO 9000 certified. Domestic manufacturers accounted for about 45 percent (US\$117 million) of the total Indian market in 2006. Imports accounted for the major part of the Indian machine tool sector. Domestic manufacturers are expected to have sold about US\$265 million in 2006. Growth in this industry in the last two years have seen a revival in fortunes of the Indian machine tool industry triggered by an investment boom in manufacturing. For example – the Indian two-wheeler industry is currently adding a capacity of 700,000 vehicles every year, by investing close to US\$230 million per annum, of which at least 60 percent would be in the form of machine tools.

Industry sources estimate that the share of RMT accounted for about 30 percent of the total import market in 2006. This is expected to increase in future due to the closure of several major manufacturing facilities in the west and the increased the investment by small and medium sized companies in India. Imports of RMT are in demand by small and medium sized engineering units due to price consideration. Industry sources predict a growth rate of 8-10 percent in imports for the next 3-5 years, when Indian industry invests in enhancing production capacity.

At a recent machine tool industry conclave, several end-users pointed out that Indian machine tools are way off international benchmarks when it comes to reliability, plug-and-play capability, long-term precision, down time, safety, power consumption, operating noise level, and TPM-- (Total Productive Maintenance) friendliness. There was also a grouse about Indian machine tool vendors rarely sticking to delivery commitments. This has made imports and specifically RMT, an attractive option. Another reason for the growth of imports is the lowering of customs duty by the government of India. To give the Indian engineering industry cost advantages and a level playing field, the Indian government lowered import duties to make the RMT available at world prices. The Indian Machine Tool Manufacturers Association (IMTMA) maintains all the market data relating to this sector. For product wise data visit the website at: <http://www.imtma.org>.

Key Suppliers

The machine tool industry in India comprises about 450 manufacturers with about 150 units in the organized sector. Top ten companies contribute almost 60 percent of production. Over three-quarters of the total machine tool production in India is by ISO-certified companies. Many machine tool manufacturers have also entered in to tie up with leading exporters in the west to import RMT machines.

The Government of India owned - Hindustan Machine Tool (HMT) is the largest company in this sector, with about 32 percent market share. Other major Indian companies in this sector include: ABB Limited, Bharat Heavy Electricals Limited (BHEL), Cummins, Crompton Greaves, Elgi Equipments, Kirloskar Oil Engines Limited (KOEL), Siemens and Thermax. The machine tool industry in India is scattered. The hub of manufacturing activities, however, is concentrated in places like Mumbai and Pune in Maharashtra; Batala, Jullunder and Ludhiana in Punjab; Ahmedabad, Baroda, Jamnagar, Rajkot and Surendranagar in Gujarat; Coimbatore and Chennai in Tamil Nadu; some parts in East India; and Bangalore in Karnataka.

Bangalore is considered as the hub for Indian machine tool industry. The city, for instance, houses Hindustan Machine Tool (HMT) Limited, a company that manufactures nearly 32 percent of the total machine tool industry's output. Leading innovations in this sector are by HMT, Ace Manufacturing Systems, Electronica Machine Tool Ltd, Perfect Machine Tool (PMT), TAL and Batliboi. According to IMTMA, domestic production of RMT was US\$20 million during 2006. This is expected to increase to US\$25 million in 2007.

Import Market

Imports account for about 50-55 percent of total consumption of machine tools. In 2006 a total of about 12,000 metalworking machines were imported, valued at \$480 million. Industry sources estimate that 30 percent of the imports were RMT. By and large, imports are restricted to specialized requirements not produced in country. These include high-speed, high precision machines and heavy-duty machines. A few users, who export their products, do import their capital goods under the Export Promotion and Credit Guarantee scheme on price consideration. Due to price advantages several companies have imported pre-owned machines. The current import tariff on machine tools is about 25 percent. Industry sources expect this to be lowered in the forthcoming budget. After the implementation of Value Added Tax (VAT), industry sources expect local manufacturers to provide competition to imports.

Prospective buyers

The surge in the industrial momentum in the Indian economy for past couple of years is expected to continue. This has led to growing business opportunities for almost all the major manufacturing sectors. Most of the end users of this sector have invested or plan to invest heavily in increasing capacities. This is expected to increase the prospects for this sector. These end-users include sectors such as automotive, capital goods, consumer durable, engineering and the infrastructure sectors.

All consumables, spares and additional equipment are now freely importable without any restrictions. Customs duties have also been reduced to encourage local capacity building. Due to increased product availability, customers in this sector have become more demanding. Customers are expecting prompt delivery of machines and down time is considered in cost calculations. Hence an efficient after-sales-service is critical in establishing a brand in the Indian market. End-users also prefer RMT, since quality is slowly emerging as a major factor in purchase decision in this sector. Unlike in the past, customers are willing to pay more for machines that can demonstrate quality.

Market Entry

Maintaining one or more technically trained Indian agents is the best way to enter the Indian machine tool market. Agents must offer service support and spares with minimum downtime for machines supplies. Indian end-users consider efficient after-sales service as an important factor in capital equipment purchases. Training end-user staff is another key ingredient for success in the Indian market. Purchase in the government sector is based on the relationship the Indian agent has with government officials and decision makers.

Used Machinery Import Inspections: SGS India (www.sgs.com) is listed as an 'Approved Inspection Agency' in the Handbook of Procedures, Appendix -28 of the EXIM Policy 2002-07. These services can be availed at major discharge ports in India based on inspection and support documentation. The procedure for the issuance of the 'Report of Findings' includes inspection and verification of the following aspects of the goods:

- Manufacturing year
- Reconditioning, if any
- Residual life assessment
- Appraisal (Reasonableness of value)
- Technical description
- On completion of the inspection and document verification, our experts issue a report based on the findings and appraisal. The report issued by SGS will enable import of used goods into India in compliance with the applicable regulations

Indian importers establish an irrevocable letter of credit covering the value of imports, payable in favor of supplier, against presentation of shipping documents. The US-EXIM Bank also provides assistance to American exporters of machine tools to India. For further information on availing US-EXIM Bank's assistance, you may visit: <http://www.exim.gov>.

Opportunities for Profile Building

The Indian Machine Tool Manufacturers Association (IMTMA) is the apex body for the formulation, coordination and promotion of this sector in India. Several third countries have set up technical training centers in India in cooperation with the Indian government. This is a good way of promoting the American manufacturers' products in India.

Upcoming Trade Shows/Events

Following are upcoming trade shows in the Indian machine tool sector.

Name of the event: India Machine Tools Show
Date: 8-12 May, 2008
Venue: NSE Complex, Mumbai
Organizer: K & D Communications Limited, 4th Floor, Chinubhai House
7 B, Amrutbaug Society, Hindu Colony, Navarangpura, Ahmedabad,
India.
Tel: +91-79-26460453 / 26460624 / 2646972 / 26469725
Fax: +91-79-26403087
Website: <http://www.imtos.com>

Name of the event: IMTEX 2009
Date: Jan 29-Feb. 4, 2009
Venue: Bangalore, India
Organizer: Indian Machine Tool Manufacturers Association (IMTMA)
Plot 249 F, Phase IV, Udyog Vihar, Sector 18
Gurgaon 122 015, Haryana
Phone : +91-124-4014101 /02 /03 / 04
Fax : +91-124-4014108
Email : imtma@del2.vsnl.net.in
Website : <http://www.imtma.org>

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